

2 March 2020

MTI Wireless Edge Ltd

("MTI" or the "Company")

Final results for 2019

MTI Wireless Edge Ltd (AIM: MWE), the technology group focused on comprehensive communication and radio frequency solutions across multiple sectors, today announces its audited results for the year ended 31 December 2019.

HIGHLIGHTS

Strong Financial Performance

- Delivered solid revenue growth, up by 13% to \$40.0m (2018: \$35.5m)
- Performance reflects the benefits of increasing scale and improved profit margins, leading to a 29% increase in profit before tax to \$3.4m (2018: \$2.65m)
- Earnings per share increased by 21% to 3.27 US cents (2018: 2.70 US cents)
- Generated \$5.6m of cash from operations (2018: \$2.3m), increasing net cash to \$7.7m on 31 December 2019 (31 December 2018: \$4.4m)
- Shareholder's equity grew to \$22.3m on 31 December 2019 (31 December 2018: \$20.6m) representing 19.7p per share (*Calculated at £/\$ rate of 1.29*)
- Dividend of \$0.02 per share (2018: \$0.015 per share) declared
- Ongoing successful share repurchase programme contributed to tripled average daily share trading in 2019

Operational Growth Drivers

- Good demand for MTI's comprehensive solutions across multiple geographies and sectors
- No single customer generated more than 7% of revenues and income is spread across three divisions
- Macro trends underpinned growth in 2019 and are expected to continue into 2020 and beyond, namely:
 - o Climate change and water shortages are driving demand for Mottech's water management solutions;
 - o Increases in defence spending globally and MTI's Indian offset solution led to growth in military antenna sales and solutions;
 - o The move by mobile operators to next generation 5G networks is driving requests for tests / early deployments of MTI's 5G backhaul antennas from large OEM suppliers.
- Successful acquisition of a 50% shareholding in Parkland, Australia. The Group continues to assess other similar value enhancing acquisition opportunities

Moni Borovitz, Chief Executive Officer of MTI Wireless Edge, said "This is an excellent result for 2019 and we are well placed for 2020. Our business is diversified across several markets with a core focus on providing radio frequency solutions. We will continue to seek to expand through a mix of acquisition led and organic growth."

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About MTI

MTI Wireless Edge Ltd ("MTI" or the "Company") (AIM: MWE.L) has established over the last 50 years its reputation as a global provider of comprehensive radio frequency communication solutions across multiple sectors through three core divisions:

Antennas: A one stop shop for the sale of 'off the shelf' flat and parabolic antennas, combined with the provision of custom-developed antenna solutions to a range of commercial and military customers, with a growing focus on providing 5G backhaul antenna solutions to support mobile phone operators as they roll-out their 5G networks.

Water Control & Management: This division provides wireless control systems to manage agricultural irrigation and water distribution for municipal authorities and commercial entities. It operates under the Mottech brand and utilises hardware technology from Motorola, integrated with the Company's own proprietary management software. Mottech's solutions reduce water and power usage whilst providing clients with higher revenue from accurate irrigation, leading to more and better quality crops and plants being grown.

Distribution & Professional Consulting Services: Operating under the MTI Summit Electronics brand, this division exclusively represents 40 international suppliers of radio frequency/microwave components and sells these products to Israeli and global customers. Expert knowledge of both the international suppliers and customers further enables MTI to act as a consultant to all parties and assist with devising complete radio frequency/microwave solutions.

MTI is based in Israel, India, USA, South Africa, Russia, Australia and China. As at 31 December 2019, MTI had a total of 212 employees.

CHAIRMAN'S STATEMENT

Introduction

As we enter our 50th year, I am very pleased to report our audited results for the financial year ended 31 December 2019, led by record revenues of \$40.0m and profit before tax of \$3.4m. This is an excellent result for the Company and a reflection of the increasing demand for our comprehensive solutions from our global customer base.

MTI is a well-established, cash generative, expert in the field of radio frequency communication. We provide comprehensive solutions across multiple sectors to hundreds of customers globally. Our success, in the large part, stems from the knowledge and expertise accumulated over the past 50 years within our management team and across the businesses, which enables us to deliver the technical solutions that clients are seeking.

Trading overview

In 2019 the Company experienced high growth, with both revenues up 13% and profit before tax up 29%, with these increases coming primarily from organic growth. In particular, MTI's Distribution and Consultation division benefited from customers recently deploying technical design solutions that have been introduced by MTI over the last number of years. There is an

encouraging order-book from design solution wins, which are maturing into profitable sales, and of course, the team continues to propose new design solutions to a range of clients.

Water Control & Management had another strong year. We completed the acquisition of 50% of Parkland Australia, which contributed positively in the second half of 2019 and Parkland Australia is well placed to expand in 2020. Climate change and water scarcity is driving demand for our solutions and as a result there are exciting opportunities to expand this business in both existing and new markets.

The Antenna division recorded record sales of military antenna. However, overall revenues were held back as the telecoms industry transitions to adopting 5G networks which we believe will continue in 2020, with further testing and early deployments of MTI's technology after which hopefully material sales of 5G- equipment are expected to begin.

Dividend

Reflecting the strength of the Company's trading performance the Board is pleased to declare a final dividend of \$0.02 per share representing a 33% increase (2018: \$0.015). The dividend will be paid on 3 April 2020 to shareholders on the register at the close of trading on 20 March 2020 (ex-dividend on 19 March 2020). There will not be scrip dividend alternative.

Share Buyback Programme

In January 2019 the Company announced a share buyback programme up to a maximum value of £150,000. The objective of this programme is to assist with trading liquidity, by holding purchased shares in treasury and selling blocks of shares to institutional shareholders, subject to demand and price.

Cash generated from any resales of purchased shares has been reused for further share purchases, and this policy will continue to be as long the programme is in place. The programme commenced on 28 January 2019 for an initial term of six months and has been renewed twice so far, being currently valid until 26 July 2020. It has been very successful, with average daily share trading in 2019 tripling over 2018 and the Board has therefore decided to continue with the programme. As at 1 March 2020, no shares were held in treasury.

People

I would like to thank our employees for their contribution to the Company and for their dedication and creativity, which has enabled us to achieve these results. I would also like to acknowledge our gratitude to the employees' families for their continued support.

Outlook

MTI is well placed in its key markets, all of which have good macro trends that are likely to drive future growth. Our business has been repositioned and streamlined to focus on taking advantage of the following key trends:

- Demand for next generation 5G networks;
- Global warming and climate change; and
- Increased defence budget spending.

These factors, together with the market reputation and positioning of MTI, has established the Company as an expert in the field of radio frequency and as a partner that is able to develop unique solutions to meet the individual technical needs of our customers. The Board believes that this positions the Group well for 2020 and beyond.

Zvi Borovitz
Chairman

CHIEF EXECUTIVE'S REVIEW

Introduction

It is very pleasing to report such a good set of results in the Company's 50th year. Achieving \$40m in revenues was an internal target and it is highly satisfying to achieve this.

Over the last two years we have reorganised and simplified the business, so that we are now a single company with a single listing on the AIM market of the London Stock Exchange. The response to this, together with the strength of our trading performance, has been positive.

Our aim now is to continue to build our customer base and take advantage of the positive tailwinds supporting our products and services.

Financial Results

Revenues for the twelve months to 31 December 2019 increased by 13% to \$40.0m (2018: \$35.5m), which is a significant uplift and reflects both strong organic growth and contributions from acquisitions.

Gross margin improved by 6%, reflecting the mix of products sold in different markets. Gross margin was also negatively affected by exchange rates (especially due to strengthening of the New Israeli Shekel), which lowered profitability relative to revenue growth.

Nevertheless, profit before tax increased by 29% to \$3.4m (2018: \$2.65m), which demonstrated the scalability of the business and the ability for the businesses' existing infrastructure to support increased revenues. Finance expenses were also lower, as the result of an internal protection on currency exchange and lower levels of bank loans due to the repayment of the Mottech acquisition loan.

These resulted in increased earnings per share, which grew by 21% over 2018 to 3.27 US cents (2018: 2.70 US cents), coupled with strong cash generation from operations of \$5.6m of (2018: \$2.3m), increasing net cash to \$7.7m on 31 December 2019 (31 December 2018: \$4.4m).

Operational Review

Over the last 50 years MTI has established its reputation as a global provider of comprehensive radio frequency solutions across multiple sectors through three core divisions.

Antennas

A one stop shop for the sale of 'off the shelf' flat and parabolic antennas, combined with the provision of custom-developed antenna solutions to a range of commercial and military customers, with a growing focus on providing 5G backhaul antenna solutions to support mobile phone operators as they roll-out their 5G networks.

In 2019, revenues from this division decreased by 5% as the fixed broadband access market slowed whilst the market for 5G backhaul showed good progress, with 10% of antenna revenue coming from 5G backhaul versus 5% in 2018. Demand for 5G backhaul antenna solutions and our unique position of offering both flat antennas and dual band subsystem antennas, helped secure contracts with key customers (with these customers together having a market share of over 30% in the current backhaul market). Our technology and the increased sales had laid good foundations for further tests and early deployments in 2020, with material sales hopefully starting in 2021.

In the military antenna market, sales grew 13% over 2018, boosted by our offset facility in India. MTI's Indian business enables customers to conform to India's Defence Offset Guidelines which dictate, in general, that 30% of any defence contract must be completed in India. We remain optimistic on the future growth of this segment as we continue to see a large pipeline of opportunities for both military antennas and MTI's offset solution.

Water Control & Management

This division provides wireless control systems to manage agricultural irrigation and water distribution for municipal authorities and commercial entities. It operates under the Mottech brand and utilises hardware technology from Motorola, integrated with the Company's own proprietary management software. Our solutions reduce water and power usage, whilst providing higher revenue from accurate irrigation, leading to more and better quality crops and plants being grown.

In 2019, our wireless controller segment revenue grew by 16% in 2019, which has contributed to this division growing over 60% since its acquisition in 2015. The acquisition of 50% of Parkland Australia (now registered as Mottech Parkland) added to our commercial positioning in Australia and the integration of this acquisition was completed during 2019. We believe that this will increase our service offering in Australia in the years to come. Climate change is driving demand for better water management solutions and we remain focused on developing this business segment globally.

Distribution & Professional Consulting Services

Operating under the MTI Summit Electronics brand, this division exclusively represents circa 40 international suppliers of radio frequency/microwave components and sells these products to Israeli and Russian customers. Expert knowledge of both the international suppliers and customers further enables MTI to act as a consultant to all parties and assist with devising complete radio frequency/microwave solutions.

In 2019, this division was the best contributor to the Company's overall revenue, given that it grew its revenues by 33%. The division benefitted from customers adopting design solutions that in some cases were proposed by MTI several years ago. This is a long-term business with some projects lasting over 10 years.

Prospects for this division are good, as there is an encouraging order-book to fulfill this year, coupled with design wins which are creating new orders, and of course, the Company continues to propose new design solutions to a range of clients.

Outlook

MTI is a well-balanced business with a diversified spread of income, both geographically and across multiple markets. We have a clear business focus on providing comprehensive radio frequency solutions to leading technology corporations. The fact that it is our 50th year of operations demonstrates our longevity and our experience, which enables our "first to develop" approach using MTI's intellectual property and licensed technology from leading partners to create unique solutions.

Our financial performance in 2019 showed a significant increase in profit before tax, which increased by 29%, reflecting the benefits of our scalable and risk adjusted business model. Looking ahead, MTI will continue to seek to expand its business through a mix of acquisition-led and organic growth.

Moni Borovitz

Chief Executive Officer

Shareholders should note that the Company will not post hard copies of its audited annual report and accounts for the year ended 31 December 2019 (the "Annual Report") to its shareholders. Shareholders who require a hard copy of the Annual Report may write to the Company at MTI Wireless Edge Ltd Headquarters, 11 Hamelacha St. Afek Industrial Park, Rosh-Ha'Ayin, Israel

requesting a hard copy. An electronic version of the Annual Report will shortly be available on the Company's website at the following address: www.mtiwirelessedge.com

M.T.I Wireless Edge Ltd.

Consolidated Statements of Comprehensive Income

	Note	For the year ended	
		December 31,	
		2019	2018
		\$'000	\$'000
Revenues	3, 5	40,043	35,471
Cost of sales		<u>27,247</u>	<u>23,420</u>
Gross profit		12,796	12,051
Research and development expenses		1,185	1,090
Distribution expenses		4,229	4,277
General and administrative expenses		3,931	3,767
Profit from sale of property, plant and equipment		<u>(8)</u>	<u>(7)</u>
Profit from operations	4	3,459	2,924
Finance expense	6	211	288
Finance income	6	<u>(161)</u>	<u>(14)</u>
Profit before income tax		3,409	2,650
Tax expenses	7	<u>454</u>	<u>321</u>
Profit		<u>2,955</u>	<u>2,329</u>
Other comprehensive income (loss) net of tax:			
<i>Items that will not be reclassified to profit or loss:</i>			
Re measurements on defined benefit plans		<u>(6)</u>	<u>22</u>
<i>Items that may be reclassified to profit or loss:</i>			
Adjustment arising from translation of financial statements of foreign operations		<u>62</u>	<u>(229)</u>
Total other comprehensive income (loss)		<u>56</u>	<u>(207)</u>
Total comprehensive income		<u>3,011</u>	<u>2,122</u>
Profit attributable to:			
Owners of the parent		2,849	2,337
Non-controlling interest		<u>106</u>	<u>(8)</u>
		<u>2,955</u>	<u>2,329</u>
Total comprehensive income (loss) attributable to:			
Owners of the parent		2,905	2,130
Non-controlling interest		<u>106</u>	<u>(8)</u>
		<u>3,011</u>	<u>2,122</u>
Earnings per share (dollars)			
Basic	8	<u>0.0327</u>	<u>0.0270</u>
Diluted	8	<u>0.0327</u>	<u>0.0269</u>

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2019 :

Attributable to owners of the parent

	Share capital	Additional paid-in capital	Capital Reserve from share-based payment transactions	Translation differences	Accumulated losses	Total attributable to owners of the parent	Non-controlling interests	Total equity
	U.S. \$ in thousands							
Balance as at January 1, 2019	205	22,388	366	(124)	(2,195)	20,640	375	21,015
Changes during 2019:								
Comprehensive income								
Profit for the year	-	-	-	-	2,849	2,849	106	2,955
Other comprehensive income								
Re measurements on defined benefit plans	-	-	-	-	(6)	(6)	-	(6)
Translation differences	-	-	-	62	-	62	-	62
Total comprehensive income (loss) for the year	-	-	-	62	2,843	2,905	106	3,011
Dividend	-	-	-	-	(1,306)	(1,306)	-	(1,306)
Non-controlling Interest of newly purchased subsidiary	-	-	-	-	-	-	402	402
Classification of ESOP that expired	-	291	(291)	-	-	-	-	-
Exercise of options to share capital	2	146	(31)	-	-	117	-	117
Profit from acquisition and disposal of treasury shares (note 5C)	-	43	-	-	-	43	-	43
Share based payment	-	-	8	-	-	8	-	8
Balance as at December 31, 2019	<u>207</u>	<u>22,868</u>	<u>52</u>	<u>(62)</u>	<u>(658)</u>	<u>22,407</u>	<u>883</u>	<u>23,290</u>

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Changes in Equity (Cont.)

For the year ended December 31, 2018 :

	Attributable to owners of the parent							
	Share capital	Additional paid-in capital	Capital Reserve from share-based payment transactions	Translation differences	Accumulated losses	Total attributable to owners of the parent	Non-controlling interests	Total equity
	U.S. \$ in thousands							
Balance as at January 1, 2018	200	21,716	352	105	(2,781)	19,592	383	19,975
Changes during 2018:								
Comprehensive income								
Profit for the year	-	-	-	-	2,337	2,337	(8)	2,329
Other comprehensive income								
Re measurements on defined benefit plans	-	-	-	-	22	22	-	22
Translation differences	-	-	-	(229)	-	(229)	-	(229)
Total comprehensive income (loss) for the year	-	-	-	(229)	2,359	2,130	(8)	2,122
Dividend	5	672	-	-	(1,773)	(1,096)	-	(1,096)
Share based payment	-	-	14	-	-	14	-	14
Balance as at December 31, 2018	<u>205</u>	<u>22,388</u>	<u>366</u>	<u>(124)</u>	<u>(2,195)</u>	<u>20,640</u>	<u>375</u>	<u>21,015</u>

The accompanying notes form an integral part of the financial statements.

Consolidated Statements of Financial Position

		As at December 31,		As at December 31,	
		2019	2019	2018	2018
	Note	\$'000	\$'000	\$'000	\$'000
ASSETS					
Non-current assets:					
Property, plant and equipment	10	5,212		4,245	
Intangible assets	11	1,116		881	
Deferred tax assets	12	664		687	
Long-term prepaid expenses		<u>31</u>		<u>32</u>	
Total non-current assets			7,023		5,845
Current assets:					
Inventories	13	5,748		6,005	
Current tax receivables		672		153	
Unbilled revenue	14	2,866		2,271	
Trade and other receivables	14	9,799		9,591	
Cash and cash equivalents	15	<u>8,140</u>		<u>5,401</u>	
Total current assets			<u>27,225</u>		<u>23,421</u>
TOTAL ASSETS			<u>34,248</u>		<u>29,266</u>
LIABILITIES					
Non-current liabilities:					
Contingent consideration	27B	69		-	
Lease liabilities		224		-	
Loans from banks, net of current maturities	16	141		427	
Employee benefits, net	17	<u>843</u>		<u>701</u>	
Total Non-current liabilities		1,277			1,128
Current Liabilities:					
Current tax payables		230		12	
Trade and other payables	18	9,139		6,530	
Current maturities and short term bank credit	19	<u>312</u>		<u>581</u>	
Total current liabilities		9,681			7,123
Total liabilities			<u>10,958</u>		<u>8,251</u>
TOTAL NET ASSETS			23,290		21,015

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Financial Position (Cont.)

		As at December 31,		As at December 31,	
		2019	2019	2018	2018
	Note	\$'000	\$'000	\$'000	\$'000
Capital and reserves attributable to owners of the parent	23				
Share capital		207		205	
Additional paid-in capital		22,868		22,388	
Capital reserve from share-based payment transactions		52		366	
Translation differences		(62)		(124)	
Accumulated losses		<u>(658)</u>		<u>(2,195)</u>	
			22,407		20,640
Non-controlling interests			<u>883</u>		<u>375</u>
TOTAL EQUITY			23,290		21,015

The financial statements on pages 4 to 53 were approved by the Board of Directors and authorised for issue on March 1, 2020, and were signed on its behalf by:

March 1, 2020			
Date of approval of financial statements	Moshe Borovitz Chief Executive Officer	Elhanan Zeira Controller	Zvi Borovitz Chairman of the Board

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31,		For the year ended December 31,	
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
Operating Activities:				
Profit for the year	2,955		2,329	
Adjustments for:				
Depreciation and amortization	973		589	
Gain from investments in financial assets	-		(29)	
Equity settled share-based payment expense	8		14	
Gain on disposal of property, plant and equipment	(8)		(7)	
Finance expense (income), net	32		(11)	
Income tax expense	454		321	
		4,414		3,206
Changes in working capital and provisions				
Decrease (increase) in inventories	523		(634)	
Decrease in trade receivables	233		451	
Increase in unbilled revenues	(595)		(509)	
Decrease (increase) in other accounts receivables	(137)		70	
Increase (decrease) in trade and other accounts payables	1,821		(111)	
Increase (decrease) in employee benefits, net	136		(11)	
		1,981		(744)
Interest received	44		40	
Interest paid	(77)		(70)	
Income tax paid	(764)		(171)	
		(797)		(201)
Net cash provided by operating activities		<u>5,598</u>		<u>2,261</u>

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Cash Flows (Cont.)

	For the year ended December 31,		For the year ended December 31,	
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
Investing Activities:				
Proceeds from sale of property, plant and equipment		31		39
Sale (purchase) of investments in financial assets, net		-		2,040

Acquisition of initially consolidated subsidiaries	(23)	-
Purchase of property, plant and equipment	(707)	(515)
Net cash provided by (used in) investing activities	(699)	1,564
Financing Activities:		
Exercise of share options	117	-
Dividend	(1,306)	(1,096)
Short term loan from banks	-	(21)
Payments of lease liabilities	(511)	-
Treasury shares acquired	(428)	-
Treasury shares sold	471	-
Long term loan received from banks	-	120
Repayment of long-term loans from banks	(554)	(878)
Net cash used in financing activities	(2,211)	(1,875)
Increase (decrease) in cash and cash equivalents	2,688	1,950
Cash and cash equivalents at the beginning of the year	5,401	3,508
Exchange differences on balances of cash and cash equivalents	51	(57)
Cash and cash equivalents at the end of the year	8,140	5,401

Appendix A - Non-cash transactions:

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
Purchase of property, plant and equipment with credit	94	47
Scrip dividend (Note 9)	-	677

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Cash Flows (Cont.)

Appendix B - Acquisition of subsidiary, net of cash acquired:

	For the year ended December 31,		For the year ended December 31,	
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
Working capital (excluding cash and cash equivalents)	163		-	
Property, plant and equipment	112		-	
Intangible assets	192		-	
Goodwill	81		-	
Deferred taxes	(54)		-	
The subsidiaries' assets (excluding cash and cash equivalents) and liabilities at date of acquisition		494		-
Non-controlling interests		(402)		-
Contingent consideration		(69)		-
Total		23		-

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Notes forming part of the consolidated financial statements for the year ended December 31, 2019

1. General description of the Group and its operations

M.T.I Wireless Edge Ltd. (hereafter - the "Company", or collectively with its subsidiaries, the "Group") is an Israeli corporation. The Company was incorporated under the Companies Act in Israel on December 30, 1998, and commenced operations on July 1, 2000. Since March 2006, the Company's shares have been traded on the AIM market of the London Stock Exchange.

The formal address of the Company is 11 Hamelacha Street, Afek industrial Park, Rosh-Ha'Ayin, Israel.

The Company and its subsidiaries are engaged in the following areas:

- Development, design, manufacture and marketing of antennas for the military and civilian sectors.
- A leading provider of remote control solutions for water and irrigation applications based on Motorola's IRRInet state of the art control, monitoring and communication technologies.
- Providing consulting, representation and marketing services to foreign companies in the field of RF and Microwave.
- Providing engineering services in the field of floating systems and system engineering services.

2. Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for the measurement of Employee benefit assets.

The Company has elected to present the statement of comprehensive income using the function of expense method.

B. Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate and thereafter.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates used by the the Company and its subsidiaries (hereafter - the "Group") that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Deferred tax assets:** Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the estimated timing and level of future taxable profits together with future tax planning strategies.

C. New IFRSs applied in the period:

1. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has implemented the requirements of IFRS 9 retrospectively on the basis of the facts and circumstances that existed as of 1 January 2018 by recognizing the cumulative effect of the retrospective application as an adjustment to the opening balance of retained earnings and other components of equity as of January 1, 2018. See note 2 (M) for the accounting policy applied

The adoption of IFRS 9 did not have an impact on the financial statements.

2. IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

The Company elected to apply IFRS 15 retrospectively for the first time by recognizing the cumulative effect of the retroactive application as an adjustment to the opening balance of retained earnings as at 1 January 2018. See note 2 (D) for the accounting policy applied

The adoption of IFRS 15 did not have an impact on the financial statements.

D. Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services

1. Revenues from Construction Contracts are recognized based on the percentage of completion to date. The percentage of completion is determined by dividing actual completion costs incurred to date by the total completion costs anticipated. When a loss from a contract is anticipated, a provision for the entire loss that is anticipated is made in the period in which this first becomes evident, as assessed by the Company's management.

The Company recognizes revenue from construction contracts over time, since the Company's performance does not create an asset with alternative use to the Company and the Company has enforceable right to payment for performance completed up to that date.

The payment terms for these projects are based on milestones specified in the contract, which are determined in relation to the rate of progress. The Company believes that recognising revenue based on costs incurred to satisfy performance obligations faithfully depicts its performance in construction contracts. Therefore, when revenue is recognized before a specified milestone is achieved, the Company recognizes the costs incurred to satisfy the related performance obligation as unbilled revenue.

The Company estimates the total cost of completing each project based on estimates of material costs, labor costs, subcontractor performance, and other factors.

Financing components - The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

The Company elected not to adjust the transaction price for the effects of financing components in contracts where the period between when the Company transfers a promised good or a service to the customer and when the customer pays for it is one year or less.

2. Revenues from the sale of goods are recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery of the equipment.

Volume rebates give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

To estimate the variable consideration to which it will be entitled, the Company applied the 'most likely amount method' for contracts with a single volume threshold and the 'expected value method' for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The Company includes in the transaction price amounts of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Company updates its estimates of variable consideration.

E. Assets and liabilities arising from contracts with customers

Contract assets (presented as "Unbilled revenue ")

A contract asset is the Company's right to consideration in exchange for goods or services the entity has transferred to a customer that is conditional on something other than the passage of time

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

F. Basis of consolidation

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over the investee, including: the contractual arrangement with the other vote holders of the investee, the Group's potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative translation differences recorded in equity. (ii) Recognises the consideration received at fair value, recognises any investment retained at fair value of and recognises any surplus or deficit in profit or loss. (iii) reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

G. Consolidated financial statements

Where relevant, the accounting policy in the financial statements of the subsidiaries is adjusted to conform with the policy applied in the financial statements of the Group.

H. Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost of a business combination comprises the fair values of assets given, liabilities assumed and equity instruments issued. Any costs of acquisition are charged to profit or loss (if the costs of acquisition are related to the issue of debt or equity, they charged to equity or liability respectively). Goodwill is recognized as an intangible asset with any impairment in carrying value being charged to profit or loss. Goodwill is not systematically amortized and the company reviews goodwill for impairment once a year or more frequently if events or changes in circumstances indicate that there may be an impairment.

I. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured on initial recognition at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred. Intangible assets with finite useful lives are amortized over their useful lives and reviewed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end. Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful lives of these assets are reviewed annually to

determine whether such assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful lives assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the intangible asset is tested for impairment.

J. Impairment of non-financial assets

Impairment tests on goodwill and indefinite useful lives assets are undertaken annually on December 31 or sooner when there are indicators of impairment. Other non-financial assets (excluding Inventories) are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of the non-financial asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to dispose), the asset is written down and an impairment charge is recognized accordingly in the profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is performed on the asset's cash-generating unit level (i.e. the smallest Group of assets to which the asset belongs that generates cash inflow that are largely independent of cash inflows from other assets). Goodwill is allocated at initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the business combination giving rise to the goodwill. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) is lower than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses allocated to goodwill cannot be reversed in subsequent periods. An impairment loss allocated to asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. A reversal of an impairment loss, as above, is limited to the lower of the carrying amount of the asset that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and the assets recoverable amount. The reversal of an impairment loss of an asset is recognized in profit or loss. Impairment charges are included in general and administrative expenses line item in the statement of comprehensive income. During the 2018 and 2019 financial years no impairment charges of non-financial assets were recognized.

K. Foreign currency transactions

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate as of the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate as of that date. Exchange differences, other than those capitalized to qualifying assets are recognized in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the exchange rate of initial recognition. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date on which the fair value was determined.

L. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Classification by fair value hierarchy:

Assets and liabilities presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

M. Financial instruments:

1. Financial assets

The Group classifies its financial assets into one of the following categories, based on the business model for managing the financial asset and its contractual cash flow characteristics. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-the-money derivatives classified as liabilities). They are carried in the statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortized cost

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognized based on the simplified approach within IFRS 9 using a provision in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within general and administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. Financial Liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see "Financial assets" for in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value). They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes and they are not accounted for as hedges. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities include the following items:

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

3. De-recognition:

Financial assets - The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.

Financial Liabilities - The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

N. Government grants

Grants received from the Israel-U.S. Bi-national Industrial Research and Development Foundation (henceforth "BIRD") as support for a research and development projects include an obligation to pay back royalties conditional on future sales arising from the project. Grants received from BIRD, are accounted for as forgivable loans, in accordance with IAS 20 (Revised), pursuant to the provisions of IFRS 9. Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a grant and recognized in profit or loss as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method.

Changes in the projected cash flows are discounted using the original effective interest and recorded in profit or loss in accordance with the provisions of IFRS 9.

At the end of each reporting period, the Group evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid. If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as an adjustment of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

O. Deferred tax

Deferred taxes are computed in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts attributable for tax purposes. Deferred taxes are recognized in Profit or loss, except when they relate to items recognized in other comprehensive income or directly in equity.

Deferred taxes are measured at the tax rates that are expected to apply in the period when the temporary differences are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or directly in equity or deferred tax arising on business combination.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. In addition, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability is probable.

Any resulting reduction or reversal is recognized on "income tax" within the statement of comprehensive income. Taxes that would apply in the event of the disposal of investments in investees have not been taken into account, as long as the disposal of such investments is not

expected in the foreseeable future and the group has control over such disposal. In addition, deferred taxes that would apply in the event of distribution of dividends have not been taken into account, if distributions of dividends involve an additional tax liability; the Group's policy is not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and liabilities are presented in the statement of financial position as non-current items. Deferred tax liabilities are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred tax liabilities relate to the same taxpayer and the same taxation authority.

P. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

Q. Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is calculated according to weighted average model.

R. Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost including directly attributable costs. Depreciation is calculated on a straight line basis, over the useful lives of the assets at annual rates as follows:

	Rate of depreciation	Mainly %
buildings	3 - 4 %	3.13
Machinery and equipment	6 - 20 %	10
Office furniture and equipment	6 - 15 %	6
Computer equipment	10 - 33 %	33
Vehicles	15 %	

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

S. Cash and cash equivalents

Cash equivalents are considered by the Group to be highly-liquid investments, including, inter alia, short-term deposits with banks, the maturity of which do not exceed three months at the time of deposit and which are not restricted.

T. Provision for warranty

The Group generally offers up to three years warranties on its products. Based on past experience, the Group does not record any provision for warranty of its products and services.

U. Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options calculated at the grant date is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted.

V. Employee benefits

1. Short-term employee benefits: Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits: The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law since 2004 under which the Group pays fixed contributions to a specific fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense simultaneously with receiving the employee's services and no additional provision is required in the financial statements except for the unpaid contribution. The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal, retirement and several other events prescribed by that

Law. The liability for post employment benefits is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to yields on high quality corporate bonds with a term that matches the estimated term of the benefit plan.

In respect of its severance pay obligation to certain of its employees, the Company makes deposits into pension funds and insurance companies ("plan assets"). Plan assets comprise assets held by a Long-term employee benefits fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group. The liability for employee benefits

presented in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets.

W. Earnings per Share (EPS)

Earnings per share is calculated by dividing the net profit or loss attributable to owners of the parent by the weighted number of ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential ordinary shares (convertible securities such as employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential ordinary shares that are converted during the period are included in the diluted earnings per share only until the conversion date, and since that date they are included in the basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

X. Segment reporting

An operating segment is a component of the Group that meets the following three criteria:

1. Is engaged in business activities from which it may earn revenues and incur expenses;
2. Whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about allocated resources to the segment and assess its performance; and
3. For which separate financial information is available.

Segment revenue and segment costs include items that are attributable to the relevant segments and items that can be allocated to segments. Items that cannot be allocated to segments include the Group's financial income and expenses and income tax.

Y. Leases

The accounting policy applied until December 31, 2018 in regards of financial instruments is as follows:

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

The accounting policy applied as from 1 January 2019 in regards of financial instruments is as follows:

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

The main impact of adopting the standard is the elimination of the requirement on lessees to classify leases as operating leases (off-balance sheet) or finance leases, and they are now required to use a single accounting model for all leases, similarly to how finance leases under IAS 7 are currently accounted for. In agreements where the Group is the Lessee, it applies IFRS 16 using a single accounting model under which it recognizes a right-of-use asset and a lease liability upon inception of the lease contract. It does so for all leases in which the Group has the right to control the use of identified assets for a period of time in exchange for consideration.

Accordingly, the Group recognizes depreciation and depreciation charges on the right-of-use asset and tests the need for recognizing impairment of the right-of-use asset in compliance with IAS 36 "Impairment of Assets", and also recognizes finance expenses in relation to a lease liability. Therefore, beginning on first-time adoption, rent expenses relating to properties rented, are now presented as assets that are depreciated through depreciation of assets. For all leases, the Group applied the transitional provisions such that it initially recognized a liability at the commencement day at an amount equal to the present value of the lease payments during the lease, discounted using the effective interest rate as of that date, and concurrently recognized a right-of-use asset at an amount identical to the liability. As a result, the standard had no impact on equity and the accumulated losses of the Group as at initial application. As part of the initial application, the Group elected to adopt the following practical expedients, as permitted by the standard:

- a. The use of a single discount rate for a portfolio of leases with similar characteristics;
- b. Not separating lease and non-lease components of a contract, and instead accounting for all components as a single lease;
- c. Excluding initial direct costs from the measurement of the right-of-use asset as at initial application;
- d. Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;

The following new significant accounting policy for agreements in which the Group is the lessee was applied beginning on 1 January 2019 following initial application of the standard:

Right-of-use assets:

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets comprises the amount of the initial measurement of the lease liability; lease payments made at or before the commencement date less any lease incentives received; and initial direct costs incurred. The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The right-of-use assets are presented within property, plant and equipment.

Lease liabilities:

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option that is reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

Lease term:

The term of a lease is determined as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Depreciation of a right-of-use asset:

Subsequent to the inception of the lease, a right-of-use asset is measured using the cost method, less accumulated depreciation and accumulated impairment losses, and is adjusted for re-measurements of the lease liability. Depreciation is measured using the straight-line method over the useful life or contractual lease term, whichever ends earlier. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset, until the carrying amount is reduced to zero. The following table presents a summary of the impact on the consolidated statement of financial position as of 1 January 2019.

The impact on the consolidated statement of financial position as of 1 January 2019:

	Under Previous policy	The change	Under IFRS 16
	U.S. \$ in thousands		
Non-current assets:			
Property, plant and equipment	4,245	920	5,165
Current liabilities:			
Other accounts payable	2,532	452	2,984
Non-current liabilities:			
Lease liabilities	-	468	468

Upon initial adoption, the Group measured the right-of-use assets in an amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. There was no impact on retained earnings upon initial adoption of the standard.

The following is a reconciliation of the Company's liabilities in respect of operating leases, discounted at the incremental interest rate on the initial implementation date and lease commitments recognized on 1 January 2019:

	U.S. \$ in thousands
Operating lease commitments as of 31 December 2018	970
Weighted average incremental borrowing rate as of 1 January 2019	4.8%
Discounted operating lease commitments	920
Lease liabilities as of 1 January 2019	920

Z. New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Material)
- IFRS 3 Business Combinations (Amendment - Definition of Business)
- Revised Conceptual Framework for Financial Reporting

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that those amendments will have a significant impact on the financial statement.

3. Revenues

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
Revenues arises from:		
Sale of goods *	32,236	27,734
Rendering of services **	4,299	4,209
Projects **	3,508	3,528
	<u>40,043</u>	<u>35,471</u>

(*) at the point of time

(**) over time

4. Profit from operations

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
This has been arrived at after charging:		
Material and subcontractors	20,635	16,509
Wages and salaries	12,195	11,649
Plant, Machinery and Usage	897	1,407
Depreciation and amortization	981	579
Travel and Exhibition	595	566
Advertising and Commissions	492	552
Consultants	368	488
Others	429	804
	<u>36,592</u>	<u>32,554</u>

5. Operating segments

The Company and its subsidiaries are engaged in the following segments:

- Development, design, manufacture and marketing of antennas for the military and civilian sectors.
- A leading provider of remote control solutions for water and irrigation applications based on Motorola's IRRInet state of the art control, monitoring and communication technologies.
- Providing consulting, representation and marketing services to foreign companies in the field of RF and Microwave, including engineering services in the field of aerostat systems and system engineering services.

1. Segment information

Year ended December 31, 2019

	Antennas	Water Solutions	Distribution & Consultation	Adjustment & Elimination	Total
	U.S. \$ in thousands				
<i>Revenues</i>					
External	12,015	16,518	11,510	-	40,043
Inter-segment	-	-	171	(171)	-
<i>Total</i>	<u>12,015</u>	<u>16,518</u>	<u>11,681</u>	<u>(171)</u>	<u>40,043</u>
<i>Segment profit</i>	<u>444</u>	<u>1,562</u>	<u>1,228</u>	<u>225</u>	<u>3,459</u>
Finance expense, net					50
Tax expenses					<u>454</u>
Profit					<u>2,955</u>

December 31, 2019

	Antennas	Water Solutions	Distribution & Consultation	Adjustment & Elimination	Total
	U.S. \$ in thousands				
<i>Segment assets</i>	<u>14,576</u>	<u>9,793</u>	<u>5,729</u>	<u>-</u>	<u>30,098</u>
<i>Unallocated assets</i>					<u>4,150</u>
<i>Segment liabilities</i>	<u>3,514</u>	<u>1,836</u>	<u>3,837</u>	<u>-</u>	<u>9,187</u>
<i>Unallocated liabilities</i>					<u>1,771</u>

Year ended December 31, 2018

	Antennas	Water Solutions	Distribution & Consultation	Adjustment & Elimination	Total
	U.S. \$ in thousands				
<i>Revenues</i>					
External	12,670	14,298	8,503	-	35,471
Inter-segment	-	-	238	(238)	-
<i>Total</i>	<u>12,670</u>	<u>14,298</u>	<u>8,741</u>	<u>(238)</u>	<u>35,471</u>
<i>Segment profit</i>	<u>630</u>	<u>1,395</u>	<u>728</u>	<u>171</u>	<u>2,924</u>
Finance expense, net					274
Tax expenses					<u>321</u>
Profit					<u>2,329</u>

December 31, 2018

	Antennas	Water Solutions	Distribution & Consultation	Adjustment & Elimination	Total
U.S. \$ in thousands					
Segment assets	13,800	8,772	3,232	-	25,804
Unallocated assets					3,462
Segment liabilities	3,651	2,025	1,953	-	7,629
Unallocated liabilities					622

2. Entity wide disclosures External revenue by location of customers.

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
Israel	22,417	19,717
America	5,459	5,331
Europe Middle East & Africa	8,549	6,749
Asia Pacific	3,618	3,674
	40,043	35,471

3. Additional information about revenues:

There is no single customer from which revenues amount to 10% or more of total revenues reported in the financial statements.

6. Finance expense and income

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
<i>Finance expense</i>		
Interest on bank loans	32	70
Net Foreign exchange loss	-	58
Leases	45	
Interest and bank fees	134	160
	211	288
<i>Finance income</i>		
Interest from bank deposits	44	14
Net Foreign exchange gain	117	-
	161	14
	50	274

7. Tax expenses

A. Tax Laws in Israel

1. Amendments to the Law for the Encouragement of Capital Investments, 1959 (the "Encouragement Law"):

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments to the Law. The Amendment became effective as of January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. Commencing from the 2011 tax year, the Group will be able to opt to apply (the waiver is non-recourse) the Amendment and from the elected tax year and onwards, it will be subject to the amended tax rates that are: 2014 and thereafter will be 16% (in development area A - 9%).

The Group applied the Amendment effectively from the 2011 tax year.

2. Tax rates:

On December 29, 2016, the Law for Economic Efficiency (Legislative Amendments for Achieving the Budgetary Goals for 2017-2018) was published in Reshumot (the Israeli government official gazette), which enacts, among other things, the following amendments:

- Decreasing the corporate tax rate to 24% in 2017 and to 23% in 2018 and thereafter (instead of 25%).
- Commencing tax year 2017 and thereafter the tax rate on the income of preferred enterprises of a qualifying Company in Development Zone A as stated in the Encouragement of Capital Investment Law, shall decrease to 7.5% (instead of 9%) and for companies located in zones other than Zone A the rate shall remain 16%.
- In addition, the tax rate on dividends distributed on January 1, 2014 and thereafter originating from preferred income under the Encouragement Law will be raised to 20% (instead of 15%).

Therefore the applicable corporate tax rate for 2014 and thereafter is 16%.

B. The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

A company incorporated in India - The statutory tax rate is 28% and the Company was in an exempt zone until end of March 2013 and further in a 50% tax exempt zone until end of March 2018. Nevertheless from the Tax Year 2011-12, in the absence of taxable income or tax due on taxable income (calculated as per normal rates) being less than 18.5% of the Accounting Book Profits during a

particular year, the Indian regulation states that the company has to pay a Minimum Alternate tax at a rate of 18.5% of the Accounting Book Profits for that year. Such excess Minimum Alternate Tax paid on book profits over the Tax due on Actual Taxable Income (calculated as per normal rates) of each year is capable of set off against the taxable profits of future years.

A company incorporated in Switzerland - The weighted tax rate applicable to a company operating in Switzerland is about 25% (composed of Federal, Cantonal and Municipal tax). Provided that the company meets certain conditions, the weighted tax rate applicable to its income in Switzerland will not exceed 10%.

A company incorporated in South Africa - The statutory tax rate is 28%

A company incorporated in Australia - The statutory tax rate is 30%

A company incorporated in United States of America - The statutory tax rate is 21%.

A Company incorporated in Russia - the statutory tax rate is 20%.

A Company incorporated in China - the statutory tax rate is 25% but for small entities the tax rate is 10%. To be classified as a small entity all following should apply (i) Annual taxable income not exceeding 3 million yuan, (ii) Number of employees not exceeding 300 and (iii) Total assets not exceeding 50 million yuan. The Company meets the criteria of a small entity.

C. Income tax assessments

The Company has tax assessments considered as final up to and including the year 2016.

	For the year ended December 31,			
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
<i>Current tax expense</i>				
Income tax on profits for the year	402		222	
Taxes in respect of previous years	29		186	
		431		408
<i>Deferred tax income (see note 12)</i>				
Origination and reversal of temporary differences	23		(87)	
		23		(87)
Total tax expenses		454		321

The adjustments for the difference between the actual tax charge for the year and the standard rate of corporation tax in Israel applied to profits for the year are as follows:

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
Profit before income tax	3,409	2,650
tax using the Company's domestic tax rate of 16%	545	424
Non-deductible expenses (Tax-exempt income)	(95)	58
Taxes resulting from different tax rates applicable to foreign and other subsidiaries	79	(25)
Adjustments for current income tax of prior years	(29)	(186)
Other	(46)	50
Total income tax expense	454	321

8. Earnings per share

Net earnings per share attributable to equity owners of the parent

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
Net Earnings used in basic EPS	2,849	2,337
Net Earnings used in diluted EPS	2,849	2,337
Weighted average number of shares used in basic EPS	87,229,851	86,565,298
Effects of:		
Employee options	-	421,619
Weighted average number of shares used in diluted EPS	87,229,851	86,986,917
Basic net EPS (dollars)	0.0327	0.0270
Diluted net EPS (dollars)	0.0327	0.0269

The employee options have been included in the calculation of diluted EPS as the weighted average share price during the year greater than their exercise price (i.e. they are in-the-money) and therefore it would be advantageous for the holders to exercise those options. The total number of options in issue is disclosed in note 23.

9. Dividends

	For the year ended December 31,	
	2019	2018
	\$'000	\$'000
Dividend paid	1,306	1,096
Scrip dividend (1)	-	677
	<u>1,306</u>	<u>1,773</u>

(1) Under the scrip dividend policy, shareholders have the option to elect to receive dividends in new shares of the Company rather than in cash. The default arrangement will be for the payment of dividends in cash, and if the shareholder prefers to receive their dividends in new shares of the Company, then they would have to make an election. There would be no ability to make mixed elections and each shareholder would be able to choose either cash or new shares but not both. The decision to offer shareholders a scrip dividend alternative for future dividend payments will be at the sole discretion of the board. The Company has not offered a scrip dividend alternative in relation to the final dividend declared for the year ended 31 December 2019.

10. Property, plant and equipment

	Building	Machinery & equipment	Office furniture & equipment	Computer equipment	Vehicles	Right of use asset	Total
	\$'000						
Cost:							
Balance as of January 1, 2019	5,069	5,680	640	2,325	707	-	14,421
Recognition of initial application of IFRS 16	-	-	-	-	-	920	920
Acquired through business combinations	14	6	4	3	85	-	112
Acquisitions	28	554	28	26	118	204	958
Disposals	-	-	-	-	(76)	(26)	(102)
Exchange differences	(65)	1	1	-	(2)	-	(65)
Balance as of December 31, 2019	<u>5,046</u>	<u>6,241</u>	<u>673</u>	<u>2,354</u>	<u>832</u>	<u>1,098</u>	<u>16,244</u>
Accumulated Depreciation:							
Balance as of January 1, 2019	2,244	4,887	583	2,193	269	-	10,176
Additions	84	181	14	44	129	483	935
Disposals	-	-	-	-	(53)	(26)	(79)
Balance as of December 31, 2019	<u>2,328</u>	<u>5,068</u>	<u>597</u>	<u>2,237</u>	<u>345</u>	<u>457</u>	<u>11,032</u>
Net book value as of December 31, 2019	<u>2,718</u>	<u>1,173</u>	<u>76</u>	<u>117</u>	<u>487</u>	<u>641</u>	<u>5,212</u>

Lease liabilities

	Year ended December 31
	2019
	\$'000
Interest expense	45
Total cash outflow for leases	511
Additions to right-of-use assets	204

December 31, 2019	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
	\$'000					
Lease liabilities	<u>613</u>	<u>512</u>	<u>150</u>	<u>32</u>	<u>-</u>	<u>694</u>

	Building	Machinery & equipment	Office furniture & equipment	Computer equipment	Vehicles	Total
	\$'000					
Cost:						
Balance as of January 1, 2018	5,065	5,318	631	2,311	680	14,005
Acquisitions	4	363	12	19	161	559
Disposals	-	-	-	-	(104)	(104)
Exchange differences	-	(1)	(3)	(5)	(30)	(39)
Balance as of December 31, 2018	<u>5,069</u>	<u>5,680</u>	<u>640</u>	<u>2,325</u>	<u>707</u>	<u>14,421</u>

Accumulated Depreciation:

Balance as of January 1, 2018	2,153	4,697	568	2,132	244	9,794
Additions	91	190	17	65	112	475
Disposals	-	-	-	-	(78)	(78)
Exchange differences	-	-	(2)	(4)	(9)	(15)
Balance as of December 31, 2018	<u>2,244</u>	<u>4,887</u>	<u>583</u>	<u>2,193</u>	<u>269</u>	<u>10,176</u>
Net book value as of December 31, 2018	<u>2,825</u>	<u>793</u>	<u>57</u>	<u>132</u>	<u>438</u>	<u>4,245</u>

11. Intangible assets

	Goodwill from business combination	Customer relations *	Total
	\$'000		
Cost:			
Balance as of January 1, 2019	2,007	523	2,530
Acquired through business combinations	81	192	273
Balance as of December 31, 2019	<u>2,088</u>	<u>715</u>	<u>2,803</u>
Accumulated Amortization:			
Balance as of January 1, 2019	1,227	422	1,649
Amortization charge	-	38	38
Balance as of December 31, 2019	<u>1,227</u>	<u>460</u>	<u>1,687</u>
Net book value as of December 31, 2019	<u>861</u>	<u>255</u>	<u>1,116</u>
	Goodwill from business acquisitions	Customer relations *	Total
	\$'000		
Cost:			
Balance as of December 31, 2018	<u>2,007</u>	<u>523</u>	<u>2,530</u>
Accumulated Amortization:			
Balance as of January 1, 2018	1,227	308	1,535
Amortization charge	-	114	114
Balance as of December 31, 2018	<u>1,227</u>	<u>422</u>	<u>1,649</u>
Net book value as of December 31, 2018	<u>780</u>	<u>101</u>	<u>881</u>

(*) Customer relations is amortized over an economic useful life of between 6.5 to 10 years.

12. Deferred tax assets

Deferred tax asset is calculated on temporary differences under the liability method using the tax rates that are expected to apply to the period when the asset is realised.

The movement in the deferred tax asset is as shown below:

	2019	2018
	\$'000	\$'000
<i>At January 1</i>	687	600
Charged to other comprehensive income	-	-
Charged to profit or loss	(23)	87
<i>At December 31</i>	<u>664</u>	<u>687</u>

Deferred tax assets have been recognized in respect of all differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Composition:

	31.12.2019	31.12.2018
	\$'000	\$'000
Accrued severance pay	99	96
Other provisions and employee-related obligations	105	87
Research and development expenses deductible over 3 years	201	259
Carry forward tax losses	<u>259</u>	<u>245</u>

Deferred tax assets relating to carry forward capital losses of the Group total approximately \$1,059 and \$1,020 thousand as of December 31, 2019 and 2018 respectively were not recognized in the financial statements because their utilization in the foreseeable future is not probable.

13. Inventories

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Raw materials and consumables	4,049	4,518
Work-in-progress	130	310
Finished goods and goods for sale	1,569	1,177
	<u>5,748</u>	<u>6,005</u>

14. Trade receivables, other receivables and unbilled revenue

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Trade receivables	8,727	8,685
Unbilled revenue - Projects	2,866	2,271
Other receivables	1,072	906
	<u>12,665</u>	<u>11,862</u>

Trade receivables:

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Trade receivables (*)	8,424	8,505
Notes receivable	398	364
Allowance for doubtful accounts	(95)	(184)
	<u>8,727</u>	<u>8,685</u>

(*) Trade receivables are non-interest bearing. They are generally on 60-120 day terms.

As at 31 December 2019 trade receivables of \$ 946K (2018 - \$632K) were past due but not impaired. They relate to the customers with no default history.

Unbilled revenue:

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Actual completion costs	4,529	4,172
Revenue recognised	4,415	2,405
Billed revenue	(6,078)	(4,307)
Total Unbilled receivables - Projects	<u>2,866</u>	<u>2,271</u>

Other receivables:

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Prepaid expenses	755	409
Advances to suppliers	161	163
Tax authorities - V.A.T	101	102
Employees	54	62
Other receivables	1	170
	<u>1,072</u>	<u>906</u>

15. Cash and cash equivalents

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>\$'000</u>	<u>\$'000</u>
In U.S. dollars	5,295	4,332
In other currencies	2,845	1,069
	<u>8,140</u>	<u>5,401</u>

16. Loans from banks

	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>\$'000</u>	<u>\$'000</u>
US Dollars - unlinked	313	563
NIS	77	374
South African Rand	63	71
Less - current maturities	<u>(312)</u>	<u>(581)</u>
	<u>141</u>	<u>427</u>

In 2011 the Company received a US\$ 2.5 Million loan for the purchase of the company building in Rosh ha'ayin, Israel, secured by a mortgage on the said asset. The loan is for 10 years, with repayment on a quarterly basis from April 2011 until January 2021 and bears interest at a fixed rate of 4.9%.

On August 2016, the Company received NIS 100,000 (approximately US\$ 29 thousand) loan respectively for purchase of car. The loan is for 4 years with a monthly repayment starting August 2016 and bears interest of Prime +0.6% (2.35% as of December 31, 2019).

During 2018 two additional loans for purchases of cars were taken, which total NIS 320,000 (approximately US\$ 85 thousand). These loans are for 4 years with a monthly repayment and bears interest of Prime +0.4% (2.15% as of December 31, 2019). All bank loans for the purchase of cars are secured by a fixed lien on the car.

On June 2015 the Company received NIS 8 Million (approximately US\$ 2.08 Million) loan for funding the acquisition of Mottech. The loan is for 4 years, with repayment on a quarterly basis from September 2015 until June 2019 and bears interest at a fixed rate of 3.5%.

During 2017 Mottech South Africa entered into loan agreement of approximately US\$ 37 thousand for purchase of cars payable in 60 months on a monthly basis. Interest rate is linked to the South Africa prime lending rate.

During 2018 Mottech South Africa had entered into loan agreement of approximately US\$ 30 thousand for the purchase of cars, which is payable in 36 - 48 months on a monthly basis. The interest rate is linked to the South Africa prime lending rate.

<i>At December 31 2019</i>	<u>First year</u>	<u>Second year</u>	<u>Third year \$'000</u>	<u>Fourth year</u>	<u>Fifth year and thereafter</u>
Long-term loan	<u>312</u>	<u>107</u>	<u>23</u>	<u>7</u>	<u>4</u>

17. Employee benefits

A. Composition:

	<u>As at December 31</u>	
	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Present value of the obligations	1,818	1,691
Fair value of plan assets	<u>(975)</u>	<u>(990)</u>
	<u>843</u>	<u>701</u>

B. Movement in plan assets:

	<u>Year ended December 31</u>	
	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
<i>Year begin</i>	990	1,100
Foreign exchange gain (loss)	80	(79)
Interest income	19	21
Contributions	18	16
Benefit paid	(152)	(15)
<i>Re measurements gain (loss)</i>		
Actuarial profit (loss) from financial assumptions	3	(2)
Return on plan assets (excluding interest)	<u>17</u>	<u>(51)</u>
<i>Year end</i>	<u>975</u>	<u>990</u>

C. Movement in the liability for benefit obligation:

	<u>Year ended December 31</u>	
	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
<i>Year begin</i>	1,691	1,834
Foreign exchange (gain) loss	152	(135)
Interest cost	63	47
Current service cost	48	46
Benefits paid	(162)	(26)
<i>Re measurements loss (gain)</i>		
Actuarial loss (gain) from financial assumptions	78	(46)
Adjustments (experience)	<u>(52)</u>	<u>(29)</u>
<i>Year end</i>	<u>1,818</u>	<u>1,691</u>

Supplementary information

1. The Group's liabilities for severance pay retirement and pension pursuant to Israeli law and employment agreements are recognized by full - in part by managers' insurance policies, for which the Group makes monthly payments and accrued amounts in severance pay funds and the rest by the liabilities which are included in the financial statements.
2. The amounts funded displayed above include amounts deposited in severance pay funds with the addition of accrued income. According to the Severance Pay Law, the aforementioned amounts may not be withdrawn or mortgaged as long as the employer's obligations have not been fulfilled in compliance with Israeli law.
3. Principal nominal actuarial assumptions:

	As at December 31,	
	2019	2018
Discount rate on plan liabilities	3.51%	3.02%
Expected increase in pensionable salary	2%	2%

4. Sensitivity test for changes in the expected rate of salary increase or in the discount rate of the plan assets and liability:

	Change in defined benefit obligation	
	As at December 31,	
	2019	2018
	\$'000	\$'000
The change as a result of:		
Salary increase of 1 %	75	61
Salary decrease of 1 %	(64)	(53)
The change as a result of:		
Increase of 1% in discount rate	(62)	(51)
Decrease of 1% in discount rate	74	61

	Year ended December 31,	
	2019	2018
	\$'000	\$'000
Expenses in respect of defined contribution plans	441	337

18. Trade and other payables

	As at December 31,	
	2019	2018
	\$'000	\$'000
Trade payables	6,289	3,998
Employees' wages and other related liabilities	1,569	1,377
Advances from trade receivables	58	134
Accrued expenses	392	471
Government authorities	52	46
Lease liability	389	-
Others	390	504
	<u>9,139</u>	<u>6,530</u>

19. Current maturities

		As at December 31,	
	Interest rate	2019	2018
	as at December 31,	\$'000	\$'000
	2019		
	%		
Current maturities In NIS	Prime+0.6	39	40
Current maturities In NIS	3.5	-	267
Current maturities In SA ZAR	9.5 - 11	23	24
Current maturities In US \$	4.9	250	250
Total Current maturities and short-term bank loans		<u>312</u>	<u>581</u>

Changes in liabilities arising from financing activities

Reconciliation of the changes in liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows

	Loans and borrowings	Lease liabilities	total
	\$'000		
At 1 January 2019	1,008	-	1,008
<i>Changes from financing cash flows:</i>			
Recognition of initial application of IFRS 16	-	920	920

Payments of lease liabilities	-	(511)	(511)
Repayment of long-term loans from banks	(554)	-	(554)
Total changes from financing cash flows	454	409	863
<i>Changes in fair value:</i>			
New leases	-	204	204
Leases cancelled before maturity	-	(26)	(26)
Interest expense	-	45	45
Interest paid	-	(45)	(45)
Total changes from financing cash flows	-	178	178
Effects of foreign exchange	(1)	26	25
At 31 December 2019	453	613	1,066

	Loans and borrowings
	\$'000
At 1 January 2018	1,824
<i>Changes from financing cash flows:</i>	
Proceeds from long term loan received from banks	116
Repayment of long-term loans from banks	(878)
Total changes from financing cash flows	(762)
Effects of foreign exchange	(54)
At 31 December 2018	1,008

20. Financial instruments - Risk Management

The Group is exposed through its operations to the following financial risks:

- Foreign currency risk
- Liquidity risk
- Credit risk

Foreign currency risk

Foreign exchange risk arises when Group companies enter into transactions denominated in a currency other than their functional currency.

The Group's policy is to allow the Group's entities to pay liabilities denominated in their functional currency using the cash flows generated from the operations of each entity. When the Group's entities have liabilities denominated in a currency other than their functional currency (and the entity does not have sufficient cash balances in this currency to settle the liability) the Group, if possible, transfers cash balances in one entity to another entity in the Group. The Group's currency risks are as follows:

- Most of the Company's revenues are in US dollars or linked to that currency, and the Company's inputs are mainly linked due to the importation of raw materials into the US dollar, but the wages and salaries expenses (which constitutes a material input in the Company's operations) are in NIS. Therefore, there is an exposure to changes in the exchange rate of the NIS against the dollar.
- The exercise price of the options granted to employees is denominated in British pounds (GBP) while the functional currency is the US dollar, and therefore the Company is exposed to changes in the exchange rate in respect of these options.

Management mitigates that risk by holding some cash and cash equivalents and deposit accounts in NIS. The company also purchases from time to time some forwards on the NIS/\$ exchange rate to hedge part of the salaries costs. As of December 31, 2019 no such transactions were open. Since the purchase of Mottech the Group has an additional currency risk due to its subsidiaries activity.

The following is a sensitivity analysis of a change of 5% as of the date of the financial position in the NIS exchange rates against the functional currency, while the rest of the variables remain constant, and their effect on the pre-tax profit or loss on equity:

	Profit (loss) from change	Book value	Profit (loss) from change
	December 31, 2019		
NIS exchange rate	0.303	0.289	0.275
Total assets, net	63	1,260	(63)
	December 31, 2018		
NIS exchange rate	0.280	0.269	0.255
Total assets, net	87	1,749	(87)

The Company's exposure to changes in foreign currency in all other currencies is immaterial.

Total	Other currencies	NIS	USD
As at December 31, 2019			

Assets

8,140	1,975	870	5,295	Current assets:
11,593	454	5,730	5,409	Cash and cash equivalents
1,072	-	908	164	Trade receivables
				Other receivables
				Liabilities
				current liabilities:
312	23	39	250	Current maturities and short term bank credit and loans
6,289	1,220	3,561	1,508	Trade payables
2,861	98	2,610	153	Other accounts payables
				non- current liabilities:
141	40	38	63	Loans from banks, net of current maturities
11,202	1,048	1,260	8,894	Total assets, net

Total	Other currencies	NIS	USD
As at December 31, 2018			

				Assets
				Current assets:
5,401	363	642	4,396	Cash and cash equivalents
10,956	256	5,189	5,511	Trade receivables
906	-	719	187	Other receivables
				Liabilities
				current liabilities:
581	24	307	250	Current maturities and short term bank credit and loans
3,998	386	2,029	1,583	Trade payables
2,532	-	2,398	134	Other accounts payables
				non- current liabilities:
427	47	67	313	Loans from banks, net of current maturities
9,725	162	1,749	7,814	Total assets, net

Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of insufficient liquidity means to fulfil its immediate obligations. The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group have sufficient availability of cash including the short-term investment of cash surpluses and the raising of loans to meet its obligations by cash management, subject to Group policies and guidelines.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

<i>December 31, 2019</i>	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
	\$'000					
Loans from banks	312	107	23	7	4	453
Trade payables	6,289	-	-	-	-	6,289
Payables	2,850	-	-	-	-	2,850
	<u>9,451</u>	<u>107</u>	<u>23</u>	<u>7</u>	<u>4</u>	<u>9,592</u>
<i>December 31, 2018</i>	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
	\$'000					
Loans from banks	581	309	100	18	-	1,008
Trade payables	3,998	-	-	-	-	3,998
Payables	2,532	-	-	-	-	2,532
	<u>7,111</u>	<u>309</u>	<u>100</u>	<u>18</u>	<u>-</u>	<u>7,538</u>

Credit risks

Financial instruments which have the potential to expose the Group to credit risks are mainly deposits accounts, trade receivables and other receivables. The Group holds cash and cash equivalents in deposit accounts in big banking institutions in Israel, thereby substantially reducing the risk to suffer credit loss. With respect to trade receivables, the Group believes that there is no material credit risk which is not provided in light of Group's policy to assess the credit risk of customers before entering contracts. Moreover, the Group evaluates trade receivables on a day to day basis and adjusts the allowance for doubtful accounts accordingly and since January 2019 had entered into an agreement with credit insurance company to further mitigate this risk.

The aging analysis of these trade-receivable balances by business segment:

December 31, 2019	Past due trade receivables with aging of
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	<u>Revenues</u>	<u>Total trade receivables</u>	<u>Neither past due nor impaired</u>	<u>< 30 days</u>	<u>>30 days</u>
Antennas - other receivables	12,015	6,131	5,642	300	189
Water Solutions - other receivables	16,518	2,405	2,248	148	9
Distribution & Consultation - other receivables	11,681	3,057	2,758	271	28
intercompany	(171)	-	-	-	-
total	40,043	11,593	10,648	719	226

December 31, 2018

	<u>Revenues</u>	<u>Total trade receivables</u>	<u>Neither past due nor impaired</u>	<u>Past due trade receivables with ageing of</u>	<u>< 30 days</u>	<u>>30 days</u>
Antennas - other receivables	12,670	5,919	5,485	132	302	
Water Solutions - other receivables	14,298	3,097	2,927	153	17	
Distribution & Consultation - other receivables	8,748	1,940	1,940	17	11	
intercompany	(238)	-	-	-	-	
total	35,478	10,956	10,324	302	330	

Fair value

The carrying amount of cash and cash equivalents, trade receivables, other accounts receivable, credit from banks and others, trade payables and other accounts payable approximate their fair value.

Sensitivity tests relating to changes in market price of listed securities

The Group has performed sensitivity tests of the principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant. The sensitivity tests for listed investments with quoted market prices (bid price) were performed on possible changes in these market prices.

The Group is not exposed to cash flow risk due to interest rate since the long-term loan bears fixed interest.

The following table demonstrates the carrying amount and fair value of the groups of financial instruments that carrying amounts does not approximate fair value:

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Financial liabilities:	\$'000			
Long-term loan with interest (1)	453	1,008	454	1,013

- (1) The fair value of the long-term loan received with fixed interest is based the present value of cash flows using an interest rate currently available for a loan with similar terms.

Linkage terms of financial liabilities by groups of financial instruments pursuant to IAS 39

December 31, 2019:

	<u>NIS</u>	<u>Unlinked</u>	<u>S.A Rand</u>	<u>Total</u>
	\$'000			
Financial liabilities measured at amortized cost	77	313	63	453

December 31, 2018:

	<u>NIS</u>	<u>Unlinked</u>	<u>S.A Rand</u>	<u>Total</u>
	\$'000			
Financial liabilities measured at amortized cost	374	563	71	1,008

Capital management

The Group's objective is to maintain, as much as is possible, a stable capital structure. In the opinion of Group's management its current capital structure is stable. Consistent with others in the industry, the Group monitors capital, including others also, on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2019 and 2018 were as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Loans from banks	453	1,008
bank credit	-	-

Total liabilities	453	1,008
	31.12.2019	31.12.2018
Share capital	207	205
Additional paid-in capital	22,868	22,388
Retained earnings	(658)	(2,195)
Capital reserves	(10)	242
Non-controlling interest	883	375
Total equity	23,290	21,015
Leverage ratio	1.9%	4.8%

The net debt ratios stem from the Board of Directors' decision to continue to invest in the Company's development, but without the use of excessive leverage. The Group intends to examine the leverage ratio from time to time and to define it according to its needs. The decrease in the net debt ratio in 2019 derived mainly from the repayment of credit, in accordance with the repayment schedules, alongside an increase in the Company's equity as a result of the Company's profits. The Group intends to maintain the leverage ratio in future periods as well. Beyond that stated above, there were no other material changes in the objectives, policies or processes of managing the Group's capital during the year, as well as in the Group's definition of capital.

21. Subsidiaries:

The principal subsidiaries of Company, all of which have been consolidated in these consolidated financial statements, are as follows:

Name	Country of incorporation	Proportion of ownership interest at 31 December		Held by
		2019	2018	
AdvantCom Sarl	Switzerland	100%	100%	M.T.I Wireless Edge
Global Wave Technologies PVT Limited	India	80%	80%	AdvantCom Sarl
Ginat Wave India Private Ltd.	India	49%	49%	M.T.I Wireless Edge
Mottech water solutions Ltd.	Israel	100%	100%	M.T.I Wireless Edge
Aqua water control solution Ltd	Israel	100%	100%	Mottech water solutions
Mottech Water Management (pty) Ltd.	South Africa	85%	85%	Mottech water solutions
Mottech Water Management (pty) Ltd. *	Australia	-	97.5%	Mottech water solutions
Mottech USA Inc.	United states	100%	100%	Aqua water control solution
M.T.I Engineering Ltd.	Israel	100%	100%	M.T.I Wireless Edge
Summit electronics Ltd.	Israel	100%	100%	M.T.I Engineering Ltd.
M.T.I Summit electronics Ltd.	Israel	100%	100%	M.T.I Wireless Edge
M.T.I Summit SPB Ltd.	Russia	99.9%	99.9%	M.T.I Summit electronics Ltd.
Mottech Water Management (Shenzhen) Ltd.	China	60%	60%	Mottech water solutions Ltd.
Mottech Parkland (pty) Ltd.**	Australia	50%	-	Mottech water solutions Ltd.

(*) Ceased its operations in 2019 as a result of the acquisition of 50% in Mottech Parkland (pty) Ltd

22. Share capital

	Authorized			
	2019	2019	2018	2018
	Number	NIS	Number	NIS
Ordinary shares of NIS 0.01 each	100,000,000	1,000,000	100,000,000	1,000,000
	Issued and fully paid			
	2019	2019	2018	2018
	Number	NIS	Number	NIS
Ordinary shares of NIS 0.01 each at beginning of the year	87,038,724	870,388	85,224,754	852,248
Changes during the year				
Scrip dividend	-	-	1,813,970	18,140
Exercise of options to share capital	790,000	7,900	-	-
At end of the year	87,828,724	878,288	87,038,724	870,388

23. Share-based payment

An Option Plan was adopted by the Company at the shareholders meeting held on July 5, 2013. Under the Plan, all previous plans were cancelled and the new plan entered into effect. The new plan includes a total of 2 million options to be converted to 2 million shares of the Company (approximately 4% of the Company's outstanding shares) at a price of 9.5 pence per share (approximately 15 cents).

The vesting period of the options is as follows: 2 years for 50% of the options, 3 years for an additional 25% of the options and 4 years for the rest of the options. An approval for the replacement of plans was received from the tax authorities on July 22, 2013, providing the Company, the employees and the trustee of the plan to submit the documentation required within 60 days from approval. As part of the grant of this plan an allocation of 280,000, 250,000 and 200,000 options was granted to the CEO, CFO and the Chairman of the board, respectively.

The weighted average fair value of the options as at the grant date was 2 pence (approximately 3 cents) per option, and was estimated using a Black and Scholes option pricing model based on the following significant data and assumptions:

Share price - 7 pence (representing approximately 11 cents)

Exercise price - 9.5 pence (representing approximately 15 cents)

Expected volatility - 25.90%

Risk-free interest rate - 0.8%

And expected average life of options 4.375 years

On May 18, 2016 a new option scheme for key Employees was approved at the Company's Annual General Meeting. Under the plan, options to purchase 800 thousand ordinary shares were granted (each option to one ordinary share) at a price of 27 pence per share (approximately 33 cents). This represents approximately 1.5% of the Company's current issued and voting share capital on a fully diluted basis. The vesting period of the options shall be as follows: 2 years for 50% of the options, 3 years for an additional 25% of the options and 4 years for the reminder of the options. Unexercised options expire nine years after the date of the grant after which they will be void. Options are forfeited when the employee leaves the Company.

There is no cash settlement of the options. The weighted average fair value of the options as at the grant date is 6 pence (approximately 9 cents) per option, and was estimated using a Black and Scholes option pricing model based on the following significant data and assumptions:

Share price - 19.88 pence (representing approximately 29 cents)

Exercise price - 27 pence (representing approximately 39 cents)

Expected volatility - 45.34%

Risk-free interest rate - 0.85%

And expected average life of options 4.375 years

The volatility measured the standard deviation of expected share price returns is based on the historical volatility of the Company. The options were granted as part of a plan that was adopted in accordance with the provision of section 102 of the Israeli Income Tax Ordinance.

The expense recognized in the financial statements for employee services received for the year ended December 31, 2019 and 2018 was US \$6,000 and US \$14,000 respectively.

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee option plans during the current year:

	2019	2019	2018	2018
	weighted average exercise price	Number	weighted average exercise price	Number
	\$		\$	
Outstanding at beginning of year	0.35	1,500,000	0.36	1,500,000
Exercised during the year	0.15	790,000	-	-
Granted during the year	-	-	-	-
Forfeited during the year	-	(-)	-	(-)
Outstanding at the end of the year	0.35	<u>710,000</u>	0.35	<u>1,500,000</u>
Exercisable at the end of the year	0.35	<u>510,000</u>	0.20	<u>1,100,000</u>

The weighted average remaining contractual life for the share options outstanding as of December 31, 2019 was 0.17 years.

24. Commitments and guarantees

A. Royalty commitments

(i) The Group is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government of Israel participates by way of grants. Under the terms of Group's funding from the Government of Israel, royalties of 2%-3.5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received, including amounts received by the Parent Company and its subsidiaries through July 1, 2000.

The maximum royalty amount payable by the Group at December 31, 2019 is US\$ 470,000.

No provision is recognized due to the lack of expectation to sale relevant products in the foreseeable future.

During 2019 the Group did not pay any royalties.

(ii) The Group is committed to pay royalties to the Government of Israel on proceeds from growth in sales of Mottech's products in China of which the Government of Israel participates by way of grants. Under the terms of the Group's funding from Government of Israel, royalties of 3% from the increase of sales in China (base year was 2017) shall be paid up to 100% of the amount of the grant received. Payment of royalties shall begin after completion of the grant receipt, which is expected in 2020. The maximum royalty amount payable by the Group at December 31, 2019 is US\$ 129,000.

B. Guarantees

The Group has provided guarantees in favour of customers and government institutes in the amount of US\$ 700,000 and US\$ 400,000 respectively. The guarantees are mainly to guarantee advances received from customers and performance of contracts signed.

C. Charges

In order to secure the Group's liabilities, real estate properties were mortgaged and fixed charges were recorded on property and some bank deposits (see also note 16).

25. Transactions with related parties:

A. Service Agreement with controlling shareholder:

As part of the Merger agreement between MTI Computers & Software Services (1982) Ltd ("**MTIC**") and the Company, it was concluded that Mr. Zvi Borovitz who served as the Chair of MTIC and serves as the Chair of the Company's board of directors, will cease to serve, on the Date of Completion, as the Chair of MTIC board of directors, but will continue to serve as the Chair of the Company's board of directors, at a cumulative scope of employment that reflects his employment as the Chair of MTIC board of directors and as the Chair of the Company's board of directors (that is, at a cumulative scope of employment that will not be less than 55%), with no change in the terms of his service and employment, other than as set forth below. The consideration to which Mokirey Aya Management Ltd. (hereinafter: the "**Management Company**") will be entitled with respect to Mr. Borovitz's service as the Chair of the Company's board of directors, starting on the Date of Completion, will reflect a cumulative consideration with respect to his service as the Chair of MTIC board of directors and as the Chair of the Company's board of directors up to the Date of Completion, with no change (and specifically, the cumulative monthly management fees will continue to be in the amount of NIS 52,000, linked to the increase in the Consumer Price Index from the month of April 2016, plus VAT as provided by law).

On March 1, 2019, following the Merger, an amendment to the agreement was renewed to include remuneration (per month) of:

1. 55,000 NIS to Mr. Zvi Borovitz for his service as a chairman of the board of the Company in capacity of at least 50% and
2. 77,000 NIS to Mr. Moni Borovitz for his service as CEO of the Company in capacity of at least 90%.

All amounts are prior to VAT which will be added to the invoices and are linked to the increase in the consumer price index. In addition to the above, and in accordance with the remuneration policy adopted by the Company, as required under rule 20 to the Israeli Companies Law, a bonus scheme was granted to each of the managers. The bonus scheme states that Zvi Borovitz and Moni Borovitz will be entitled (each one of them) to a bonus amounting 2.5% of the Company's net profit exceeding US\$800,000 per year, prior to any bonuses grant in the Company. In the case of a loss in a year the bonus for the next year will be for a net profit exceeding US\$800,000 above the loss made in the previous year. In addition Mr. Moni Borovitz shall be entitled to a bonus equal to three months management fee, based on the meeting of targets specified by the remuneration committee at the beginning of each year or per the remuneration committee decision to give such for special performance plus one month's management fee if the consolidated revenue of the Company increases by more than 5% from previous year. A ceiling to the bonuses was set at eight months management fees for Mr. Moni Borovitz and US\$100,000 for Mr. Zvi Borovitz. The agreement also states that the Company shall reimburse the management of the Company for any expense made in performance of the manager's duty. The Company shall also provide each of the managers with a car and phones and will be responsible for all its related expenses, including all relevant taxes.

B. Transaction with the Parent Group:

The following transactions occurred with the Controlling shareholder and other related parties:

	2019	2018
	\$'000	\$'000
Management Fee	714	657

Compensation of key management personnel of the Group:

	2019	2018
	\$'000	\$'000
Short-term employee benefits *)	1,153	1,052

*) Including Management fees for the CEO, Directors, Executive Management and other related parties including the Controlling shareholder.

Balances with related parties:

	2019	2018
	\$'000	\$'000
Other accounts payables	231	187

26. Merger

During March 2018 the Company announced that it was in preliminary discussions with its majority shareholder, MTI Computers & Software Services (1982) Ltd ("**MTIC**"), regarding a potential merger between the two companies. MTIC, whose shares were listed on the Tel

Aviv Stock Exchange, at that point held 53.2% of the Company's issued ordinary shares. Following the announcement in March 2018, on 1 May, 2018 the Company announced that it had entered into a merger agreement (the "**Merger Agreement**") with its majority shareholder, MTIC and the Company together being the "Merging Companies", according to which, and in accordance with the provisions of Sections 350-351 of the Israeli Companies Law, 5759-1999 (the "**Companies Law**"), as a court approved scheme of arrangement between the Company, MTIC and their shareholders (the "**Scheme of Arrangement**"), MTIC was to be merged into the Company in a statutory merger, so that MTIC would be dissolved and all of its activities, assets and liabilities, subject to certain qualifications, would be transferred to the Company in consideration for the allotment of new ordinary shares of the Company and the transfer of MTIC's existing holdings in the Company, to all of MTIC's shareholders (the "**Merger**").

The Merger does not constitute a business combination within the scope of IFRS 3 and accordingly is treated by the Company in the financial statements as a pooling of interest. According to this method, the Company prepared its financial statements in order to reflect as if the Merger was in effect as of the establishment of the Company, while making the adjustments as follows:

The capital balance of the transferred activities was classified in the statement of changes in equity as part of the additional paid-in capital. Dividend distribution to the owners prior to the date of the merger were classified to the statement of changes in equity as retained earnings.

As consideration for the Merger, the Company was to allocate to the shareholders of MTIC 31,600,436 new ordinary shares in the Company, subject to a Conversion Ratio Mechanism (as defined below). In addition, MTIC's existing holdings in the Company were also to be transferred to all of the shareholders in MTIC, pro rata to their holdings of shares in MTIC.

On the date of record for the Merger the Company was to allocate to the shareholders of MTIC (the "**Date of Record for the Merger**" and the "**Shareholders of MTIC**" respectively) 31,600,436 new ordinary shares in the Company, according to the Conversion Ratio (as defined below) as of the date of the Merger Agreement, subject to the Conversion Ratio Mechanism (as defined below) (the "**Allotted Shares**") and was to transfer them, together with MTIC's Holdings in the Company (the "**Sold Shares**"), to all of the shareholders in MTIC, pro rata to their holdings of shares in MTIC on the Date of Record for the Merger, according to the Conversion Ratio. With respect to the Merger Agreement, the "**Conversion Ratio**" - a ratio of 5.2689055 Sold Shares for each share in MTIC as of the date of entry into the Merger Agreement, was determined according to a valuation of the business activities of MTIC and the Company, on the basis of the consolidated and audited financial statements for the year ended 31 December 2017 of each company as valued by an independent appraiser (the "**Appraiser**"), was subject to updates, as necessary, according to the Conversion Ratio Mechanism (as defined below). According to the aforesaid valuation, which constituted part of the Merger Agreement (the "**Valuation**"), the equity ratio as of 31 December 2017, between the value of MTIC excluding MTIC's holdings in the Company (approximately US\$ 10.7 million as of 31 December 2017) when compared with the value of the Company (approximately US \$ 18.8 million as at 31 December 2017) was approximately 1.75: in favour of the Company.

Following completion of the Merger, assuming the Conversion Ratio is not adjusted in accordance with the Conversion Ratio Mechanism (5.26891) and provided none of the options granted by the Company are exercised, the issued share capital of the Company was to be 87,038,724 ordinary shares.

The Merger was completed on 20 August, 2018.

27. Significant Events:

- A. On January 24 2019 the Company announced a share repurchase program to conduct market purchases of ordinary shares of par value 0.01 Israeli Shekels each ("**Ordinary Shares**") in the Company up to a maximum value of £150,000 (the "**Programme**"). The Programme will be managed by Peterhouse Capital Limited ("**Peterhouse Capital**").

The Company has entered into an arrangement with Peterhouse Capital in relation to the Programme where Peterhouse Capital will make the trading decisions concerning the timing of the market purchases of Ordinary Shares independently of and uninfluenced by the Company, with such trading decisions being in line with the terms of the Programme. Purchases may continue during any prohibited periods of the Company, as defined by the Market Abuse Regulation 596/2014/EU ("MAR"), which may fall during the term of the Programme. The Company reserves the right to bring a halt to the Programme under circumstances that it deems to be appropriate, provided that it is permissible for this to occur in compliance with MAR.

The Programme commenced on 28 January 2019 and will continue until no later than 26 July 2019. On 24 July 2019, the Company announced that the board of directors of the Company and the board of directors of MTI Engineering had decided to continue with the Programme for another six months until 26 January 2020. Ordinary Shares acquired as a result of the Programme will be held by MTI Engineering and in accordance with the Israeli Companies Law, 1999 will not have any voting rights. An objective of the Programme is that Ordinary Shares acquired by MTI Engineering will be resold, provided that this occurs under circumstances that the Board of MTI deems to be appropriate and in compliance with MAR. Cash generated from any eventual resales of Ordinary Shares acquired by MTI Engineering under the Programme will be credited to an account held with a third party, which will be under the direction of Peterhouse Capital and such cash may be used by Peterhouse Capital to make future purchases of Ordinary Shares under the Programme.

As at 31 December 2019, no Ordinary Shares were held in treasury under the Programme.

In 2019, MTI Engineering generated a profit of \$43,000, which was recorded in additional paid-in-capital.

- B. On 24 June 2019 the Company announced that Mottech Water Solution Ltd ("Mottech"), has entered into a share purchase agreement to acquire 50% of Parkland Australia Pty Ltd ("Parkland Australia"), a value added reseller of Mottech's solutions in Australia, for a consideration of up to 0.8m Australian dollars ("AUD") (approximately US\$0.55m). 0.6m AUD (US\$0.41m) of the consideration was paid upon closing and the remainder is to be paid in two tranches by July 2020 and July 2021 based on the financial performance of Parkland Australia in FY 2020 and FY 2021 (ending 30 June 2020 and 2021 respectively) (the "Acquisition"). The Acquisition was completed on 30 July 2019. The consideration for the acquisition of Parkland Australia is not viewed as a material expenditure for the Company.

- C. During July and December 2019, employees of the Company exercised options over 340,000 Ordinary Shares in exchange for a total consideration of approximately \$62,000.
- D. During April 2019, the Company's Chairman and the Chief Executive Officer, exercised options over 450,000 shares in exchange for a total consideration of approximately \$56,000.

28. Subsequent events

- A. On 23 January 2020, the Company announced that the board of directors of the Company and the board of directors of MTI Engineering had decided to continue with the Programme for another six months until 26 July 2020.
- B. The Board of directors has decided to declare a cash dividend of 2 US cents per share being approximately \$1,758,000. This dividend will be paid on 3 April 2020 to shareholders on the register at the close of trading on 20 March 2020.
- C. During January 2020, employee of the Company exercised options over 60,000 Ordinary Shares in exchange for a total consideration of approximately \$21,000.
- D. The financial statements were authorized for issue by the board as a whole following their approval on March 1, 2020.

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